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C O N F I D E N T I A L SECTION 01 OF 02 ANKARA 003336

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TAGS: [ECIN](#) [ENRG](#) [EPET](#) [SENV](#) [TU](#)

SUBJECT: AMBASSADOR EDELMAN URGES TURKEYS' ENERGY MINISTER
HILMI GULER TO PUSH AHEAD WITH ENERGY SECTOR REFORM

Classified by Ambassador Eric Edelman for reasons 1.5 (b) and (d).

1. (C) Summary: In a June 8 meeting with Minister of Energy Hilmi Guler, Ambassador Edelman welcomed progress on the East-West Energy Corridor, raised concerns about Iranian gas exports to Europe, expressed support for Bosphorus bypass pipelines, and pressed the GOT to accelerate energy sector liberalization and to resolve investment disputes in the sector. Guler explained that European companies are seeking to import Iranian gas via Turkey and asked for more information about ILSA. He explained how the government hopes to proceed with energy sector reform and promised to honor the BOT electricity generation contracts but asked for help in reaching a win-win solution with the companies. He believed the Petroleum Law before Parliament would resolve the investment complaint of Toredor Energy Resources. End Summary.

2. (SBU) Ambassador Edelman congratulated Minister Guler for the progress BOTAS has made in recent months to get construction of the Turkish portion of the BTC pipeline back on schedule and expressed his hope that "together we will celebrate the pipeline's opening in 2005." He congratulated Guler on Turkey's efforts to build gas pipelines to Europe but noted that the U.S. is concerned that some Europeans would like to use these pipelines to transport Iranian gas, as well. He noted U.S. support for bypass options to reduce the growing oil tanker traffic in the Bosphorus and urged the Minister to push forward with reform of the domestic energy sector, including the resolution of continuing investment disputes in the sector. Ambassador emphasized that Turkey will need foreign investment, especially in the energy sector, but that investors are discouraged by the slow pace of reform and privatization and the treatment of some foreign investors in the sector.

3. (C) Guler agreed that BTC construction was back on track, noting that he monitors progress on a daily basis. He agreed that a bypass pipeline was in Turkey's interest and noted that he had forwarded the application of Thrace Development Corporation to build a bypass to the Council of Ministers, but no decision has yet been taken. Turning to the Shah Deniz pipeline to bring Azeri gas to Turkey, Guler questioned whether the Azeri gas fields were adequate to meet the demand generated by the proposed interconnector pipelines to Europe. U/S Demirbilek said Turkey needed to find alternative supplies, and there are three options: Iran, Egypt, and Iraq. He said that the Europeans are actively courting the Iranians for their gas, and are angry that Turkey have been reluctant to cooperate. However, Guler explained, Turkey's Natural Gas Law to open up the sector and the EU's Energy Charter had the effect of limiting the government's ability to stop the Europeans. Guler said he was aware of U.S. concerns vis-a-vis Iran, but asked for more information about ILSA and how it could impact Turkey's role as a transit country. He proposed that the U.S and Turkey should work together to promote Turkmen gas as an alternative to Iran. He suggested that the U.S. try to limit Turkmen gas exports to Russia and Iran. The Ambassador responded that we do not have the influence to stop Russia and Iran from buying Turkmen gas and we do not think that Niyazov is interested or able to change the situation.

4. (U) On reform, Guler explained that Turkey had agreed with the IBRD to proceed with privatization of electricity generation and distribution. However, deregulation would proceed more slowly in order to reduce the risks to private investors. In the gas sector, he said the IBRD agreed that the current Natural Gas Law, which mandated that BOTAS transfer 80 percent of Turkey's natural gas import contracts to private companies was too ambitious. He said Europe learned that increasing domestic competition does not necessarily reduce prices because Gazprom has so much market power. He explained that amendments to the law will allow BOTAS to keep all of its current contracts; new companies will be able to enter into new import contracts as domestic demand grows. If by 2008 this process has not worked, BOTAS will be forced to transfer some of the import contracts.

5. (SBU) Guler said he fully supported the need for attracting FDI to the energy sector, and therefore, he was being very careful dealing with investment disputes. He said he believed that the Petroleum Law pending before Parliament

would resolve the problem faced by Toreador Energy Resources, which has been unable to fully repatriate its capital because of a Turkish court decision overturning provisions in the 1954 Petroleum Law. Turning to the BOTs, Guler said the original BOT contracts were faulty, and as a result, the BOTs produce the highest cost electricity, which the government was forced to buy. Guler emphasized that Turkey will fully respect the contracts and was seeking to talk to the companies to find ways to reduce their cost structure and pass the savings on to consumers. He added his concern that the Turkey-based partners of the U.S. companies were not accurately reporting the situation to the U.S. companies and asked for the Ambassador's help. He added that Turkey's tax authorities had found some evidence that the BOTs had falsified import receipts to increase their profits.

EDELMAN